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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2017 / 2018 SESSION

BFN3104 – CORPORATE FINANCIAL STRATEGIES

(All Sections / Groups)

8 March 2018
2.30pm-4.30pm
(2 hours)

INSTRUCTIONS TO STUDENT

1. This Question paper consists of 4 pages with 5 questions.
2. Answer ALL questions and the distribution of the marks for each question is given.
3. Please write all your answers in the Answer Book provided.

Question 1 (20 marks)

- a. Explain three approaches to maximize shareholders' wealth. (6 marks)
- b. Discuss the fundamental development of corporate life cycle and financial strategies related to financing for each stage (show graphical illustrations). (14 marks)

Question 2 (20 marks)

You have been assigned to develop financial planning and analyse the result of Telekom Sales Sdn Bhd (TSSB).

- a. Explain five steps in financial planning. (10 marks)
- b. In year 2016, TSSB had RM 5 million in operating income (EBIT). The company had a net depreciation expense of RM 1 million and an interest expense of RM1 million. Corporate Tax was 40%. TSSB has RM14 million in operating current assets, RM 4 million in operating current liabilities and RM15 million in net plant and equipment. The company estimates that after tax cost of capital of 10%. Assume that TSSB's only non cash item is depreciation.
 - i. What was the company's net cash flow? (1 mark)
 - ii. What was the company's net operating profit after taxes (NOPAT)? (1 mark)
 - iii. Calculate net operating working capital and total net operating capital for the current year. (2 marks)
 - iv. If total net operating capital in the previous year was RM24 million, what was the company's free cash flow (FCF) for the year? (3 marks)
 - v. Calculate TSSB's Economic Value Added (EVA). (3 marks)

Question 3 (20 marks)

- a. Explain uncertainty analysis and risk analysis. (3 marks)
- b. What is Financial Risk Management? (3 marks)
- c. A firm is considering a risky business expansion project with the following expected cash flows (in million):

Time (t)	0	1	2	3	4	5	6
Cash flow (RM million)	-80	30	20	30	20	30	20
Abandonment (RM million)	n.a.	40	35	30	20	10	n.a.

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If the cost of capital for this project is 12 percent, what is the net present value? Should the project be undertaken? (7 marks)

- d. You are evaluating a proposed expansion project and you determine that the DCF-NPV is -RM30,000. However, by investing today, you might have a future growth option to expand further but it would cost you an additional RM70,000 (in today's Ringgit) to have this option. If this future opportunity occurs, you estimate the present value of this option will be RM280,000. However, there's only a 40 percent chance of this occurring. Does the growth option make investment in the proposed project a positive NPV? (7 marks)

Question 4 (20 marks)

- a. Explain the term merger and consolidation. (4 marks)
- b. Explain two (2) methods of commonly used to determine the value of the target firm. (4 marks)
- c. Firm C intends to acquire Firm D. The acquisition will cost Firm C RM120 million. Firm C plans to install new management, "fix" the company, and sell it at the end of 5 years. The projected incremental after-tax cash flow stream that Firm C expects to realize from the acquisition (which reflects the anticipated operating improvements) is for years 1 through 5 as follows: RM20 million, RM20 million, RM30million, RM50 million, and RM50 million. In addition, the projected after-tax proceeds from selling Firm B at the end of 5 years amount to RM240 million.
- i. Calculate the NPV of the acquisition, assuming a 12 percent cost of capital. (5 marks)
- ii. Should Firm A proceed with the acquisition? (3 marks)
- d. An acquisition target currently has 12 million shares outstanding. They are trading at RM30. This gives the target a current market value of RM360 million. What is the premium paid if the target is acquired at RM43 per share? (4 marks)

Question 5 (20 marks)

You are working in a consultancy firm. Your client has approached to advice on filing a case either Chapter 7 or Chapter 11 bankruptcy.

- a. Explain what is Chapter 7 and Chapter 11 of Bankruptcy Laws. (2 marks)
- b. If the firm chooses to reorganize, the following future cash flows are expected:

Year	1	2	3	4	5
Cash Flow in RM Million	30	50	60	60	80

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The appropriate discount rate is 15 percent. The liquidation value of the firm is RM220 million.

- i. What is the reorganization value? (6 marks)
- ii. Should the firm file a Chapter 7 or a Chapter 11 bankruptcy? (3 marks)
- c. What signs can indicate financial distress? (6 marks)
- d. Briefly explain the term business liquidation. (3 marks)

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